RECORD AND BRIEFS

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In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

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6 *Moy's Walker on Patents* § 19:20 (4th ed. 2016) 13

REPLY BRIEF FOR PETITIONER[1]

This Court has held that "the initial authorized sale of a patented item terminates all patent rights to that item." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta Computer, Inc.* v. *LG Elecs.*, 553 U.S. 617, 625 (2008)). "[A] patentee may not attach to the article made by him or with his consent a condition running with the article in the hands of purchasers." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 494 (1926).

Lexmark asks the Court to overturn this settled principle and make patent exhaustion optional. It also seeks a geographic limitation on exhaustion. Both arguments are foreclosed by clear precedent.

I. An Authorized Domestic Sale Of A Patented Article Exhausts All Patent Rights In That Article.

Patentees may not exert patent-based, post-sale control following the authorized sale of a patented article. Pet. Br. 15-32. That rule resolves this question.

Lexmark offers four responses. It invokes Sections 154 and 271 of the Patent Act; it attempts to conflate restrictions on a licensee's authority to sell with post-sale restrictions; it asserts that a separate doctrine, patent misuse, supplies the sole limitation on patentees; and it misconstrues this Court's precedents, ignoring the Court's oft-stated explanation of the exhaustion doctrine and advancing substitute ra-

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[1] The Rule 29.6 Statement in the opening brief remains accurate.

tionales for the Court's decisions. Each contention lacks merit.

A. Patent exhaustion constrains the rights conferred by the Patent Act.

Lexmark gets the issue precisely backward in contending that patent exhaustion is rooted in the text of Sections 154(a) and 271(a) of the Patent Act (Br. 12-14, 14-15, 24-25). Patent exhaustion operates as a "limit" on "the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. See also *Bowman*, 133 S. Ct. at 1766 & n.2. That limit rests on pre-existing common law principles—the "first sale" doctrine—which applies because nothing in the Patent Act negates it. And certainly nothing in the statute authorizes patentees to enforce patent-based post-sale restrictions.

1. Despite applying patent exhaustion on scores of occasions (see, *e.g.*, Pet. Br. 15-35), the Court has never located the doctrine in Sections 154, 271, or their predecessors.

Rather, "[t]he 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree." *Kirtsaeng* v. *John Wiley & Sons*, 133 S. Ct. 1351, 1363 (2013). See also Pub. Knowledge Br. 8-14; Ariel Katz, et al., *The Interaction of Exhaustion and the General Law*, 102 Va. L. Rev. Online 8 (2016). Patent exhaustion rests on this fundamental background legal principle—not negated by the Patent Act's text and therefore adopted by Congress. "'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" *Kirtsaeng*, 133 S. Ct. at 1363. And that is especially true when, as here, Congress has reenacted the law

after this Court has consistently applied the common law principle.

Lexmark cannot identify a single decision of this Court suggesting that patent exhaustion stems from, and is thus defined by, any statute. See Resp. Br. 13. In *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 17 (1913), the Court noted that, after the "right to vend conferred by the patent law has been exercised," additional restrictions are "beyond the protection and purpose of the act"—but it cited no statute. So too in *Motion Picture Patents*. Pet. Br. 29-31. And *Seymour*, cited by Lexmark, was not an exhaustion case at all.

When Congress wishes to codify the exhaustion doctrine, it does so clearly—as in the Copyright Act. 17 U.S.C. § 109. Congress did not do so here.

2. Separately, neither provision's text justifies patent-based, post-sale restrictions. Lexmark observes (Br. 12) that both Sections 154(a) and 271(a) define the patentee's rights in the disjunctive.

But the exhaustion doctrine preserves these rights because it applies on a per-item basis. Patent exhaustion "restricts a patentee's rights only as to the 'particular article' sold." *Bowman*, 133 S. Ct. at 1766. It "leaves untouched the patentee's ability to prevent a buyer from making new copies of the patented item." *Ibid.* Lexmark is thus wrong to fear that the exhaustion doctrine leaves a patentee "with no rights to exclude *in any respect*." Resp. Br. 14. It retains *all* rights, *except* as they relate to the single article sold.[2]

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[2] 35 U.S.C. § 261, which makes patents assignable, at most supports the settled proposition that a patentee may offer a lim-

Lexmark similarly insists (Br. 25) that Section 271(a)'s reference to acts "without authority" means that the buyer of a patented good must obtain a patentee's authority to resell or repair that good, and that a patentee does not "provide[] 'consent' or 'authority' by withholding it." But patent exhaustion—by terminating the patentee's rights with respect to articles purchased in an authorized sale—renders the patentee's authority *irrelevant* as to those articles.

Nearly a century ago, it was already "well settled" "that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." *Gen. Elec.*, 272 U.S. at 489. The seller's authority is immaterial because the article "has passed beyond the scope of the patentee's rights." *Ibid.* See also Pet. Br. 30-32.

The Copyright Act again confirms the point. Section 106 states that the copyright owner "has the exclusive rights to do and to *authorize*" certain actions, such as selling a copyrighted work. 17 U.S.C. § 106 (emphasis added). The exhaustion provision, Section 109, makes clear that the owner of a copyrighted work may resell that good "*without* the authority of the copyright owner" (17 U.S.C. § 109 (emphasis added))—it does not grant "authority" to the owner.

In sum, exhaustion permits the owner of the purchased article to act *without* the patentee's "authori-

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ited *license* for the manufacture and sale of an article. See Pet. Br. 38-41.

ty"—otherwise, exhaustion would be a license by another name.[3]

B. Lexmark improperly conflates licenses and sales.

Patent exhaustion applies identically to any authorized sale of an article embodying the patent, whether the sale is made by the patentee itself or by an entity that the patentee has licensed to manufacture and sell the article. See Pet. Br. 38-41. Just as a patentee may decide when and to whom it will sell its own articles, it may similarly limit the circumstances in which its licensee is authorized to sell. *Ibid.* Once an authorized sale takes place, however, neither conditions imposed by the patentee nor conditions imposed by a licensee are enforceable via the patent law.

Lexmark's entire argument rests on muddling these basic principles. This Court has upheld patentees' use of patent remedies to enforce restrictions on when and to whom a licensee may sell articles manufactured under the license—in other words, restrictions on the first sale by the licensee of the patented article. When the licensee violates those restrictions, the licensee is subject to infringement liability and the downstream purchaser is subject to infringement liability, because there has been no authorized sale exhausting the patent rights.

But Lexmark wrenches those decisions out of critically-important context in arguing that they jus-

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[3] If the purchaser of a good must have the patentee's "authority" for repair or resale, then patent exhaustion necessarily supplies that authority. See IP Profs. Br. 9-11; Pub. Knowledge Br. 14.

tify invocation of patent remedies to enforce post-sale restrictions that apply *after* the first authorized sale occurs. See Resp. Br. 14-17, 22-24, 31-32. Neither a patentee nor a licensee may impose post-sale restrictions enforceable under the patent law.

The first case Lexmark identifies (Br. 14-15)—*Bement* v. *Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902)—demonstrates this critical distinction. *Bement* concerns the ability of a patentee "to control his *licensee's* sale price within the limits of the patent monopoly." *United States* v. *Line Material Co.*, 333 U.S. 287, 303 (1948) (emphasis added). That is a restriction on the right of a licensee to make an authorized sale; it is not a restriction on the right of a purchaser *following* that first sale.

Mitchell v. *Hawley* also involved a licensee/seller, in the particular context where the patent term was extended post-license. 83 U.S. at 549-551. The licensee's sale of the article was not authorized by the patentee (*id.* at 551)—and therefore did not exhaust—which is how the Court has consistently understood *Mitchell*. See *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181-182 (1938).

Finally, in *General Talking Pictures*, the licensee "had no right to sell the [patented] amplifiers" for commercial use; there was, therefore, no authorized sale of the amplifiers. 304 U.S. at 180-181. The "restrictive license" at issue was a restriction on the scope of the licensee's authority to sell, not a post-*sale* restriction. 305 U.S. at 127. See Pet. Br. 38-41; IP Professors Br. 16-18.

By improperly conflating the patentee's recognized ability to impose restrictions on sales by licensees with the entirely different issue of post-sale re-

strictions (by licensees or patentees), Lexmark advances multiple erroneous arguments.

First, Lexmark asserts (Br. 22-23) that our "rule would erect an artificial and illogical division between licensing patentees and manufacturing patentees." Lexmark later (Br. 32-34) reiterates that there is "no principled basis" for holding that a "patentee may not achieve in one step (by making and selling itself) what it can achieve in two." There is no distinction—authorized sales by the patentee and by the licensee both terminate patent rights.

General Talking Pictures merely establishes that the patentee retains the right to determine when a sale is "authorized" and thus triggers patent exhaustion. Thus, the patentee can require its licensee to include in the sales contract a provision barring resale or reuse of the patented article—just as the patentee can include such a provision in its own sales contracts. If a licensee sells in violation of the terms of its license, there is no exhaustion. See Pet. Br. 38-41.

But if the licensee complies, and the purchaser violates that restriction, patent remedies are not available—just as they are not available in the event of noncompliance by the purchaser from the patentee. Contract law supplies the only remedy.

Second, Lexmark claims (Br. 30-31) there is "no practical reason" why a patentee should be able to control sales by licensees, but not limit the range of rights conferred by sale. The distinction rests on common sense: a licensed manufacturer stands in the shoes of the patentee prior to a first sale; and the patentee should be able to require the licensee to abide by the same conditions that the patentee would

adhere to. Upon sale, however—whether by the patentee or licensee—an article becomes the purchaser's "private individual property," and "he may continue to use it until it is worn out, or he may repair it or improve upon it as he pleases." *Bloomer* v. *Millinger*, 68 U.S. 340, 351-352 (1863).

Third, Lexmark claims (Br. 32, 35) that we advocate a "perverse rule" under which "an innocent purchaser who buys from a misbehaving limited licensee" is liable, but not a misbehaving "purchaser who buys from a compliant licensee-seller." But this Court has not decided whether a purchaser who does not know about the licensee's lack of authority can be held liable for infringement. *Gen. Talking Pictures*, 304 U.S. at 182.

Lexmark's feigned concern for consumers is also irreconcilable with its proposed rule. Its solution is to *expand dramatically* consumers' liability—encompassing those who purchase from unauthorized licensees *and* those who purchase subsequent to an authorized sale by the patentee or licensee if the patentee retains some of its rights.

Finally, Lexmark also asserts (Br. 32-33) that a purchaser is liable for infringement if it uses an article in a manner that violates restrictions imposed on the licensee. But those were the precise facts of both *Keeler* and *Quanta*—and this Court rejected the infringement claim. Pet. Br. 40-41.

C. Patent exhaustion is distinct from patent misuse.

The "patent misuse defense to infringement claims" (*Illinois Tool Works Inc.* v. *Indep. Ink, Inc.*, 547 U.S. 28, 38 (2006)), applies when a patentee "attempt[s] illegally to extend the scope of his patent

monopoly." *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 180 (1980).

Lexmark views (Br. 19-22) patent misuse as the *only* limit on a patentee's ability to enforce patent-based post-sale restrictions. That is incorrect.

Patent exhaustion and patent misuse "are separate doctrines, despite their shared focus on the limits of the patent monopoly." Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following* Quanta, 64 Hastings L.J. 561, 613 (2013).

Exhaustion bars *patent*-based control—"the initial authorized sale of a patented item terminates all patent rights to that item." *Bowman*, 133 S. Ct. at 1766. It "narrow[s] the scope of possible patent infringement claims." *Illinois Tool Works*, 547 U.S. at 38. And exhaustion leaves open the question of post-sale control "aris[ing] as a question of contract." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 666 (1895). See also *Quanta*, 553 U.S. at 637 n.7; *Bloomer*, 55 U.S. at 549-550.

Patent misuse, by contrast, focuses on whether a patentee used its patent as an improper "'means of restraining competition.'" *Illinois Tool Works*, 547 U.S. at 38. It forms a "defense to infringement claims." *Ibid.*

Misuse and exhaustion may overlap: each forbids patent-based, post-sale restrictions requiring certain tying arrangements.[4] But they do so for different reasons: exhaustion forbids all *patent*-based, post-

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[4] See, *e.g.*, *Carbice Corp. of Am.* v. *Am. Patents Dev. Corp.*, 283 U.S. 27, 30-31 (1931) (misuse); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (exhaustion).

sale restrictions, whereas patent misuse forbids a restriction that improperly extends the patent monopoly.

Indeed, although exhaustion limits only patent remedies, patent misuse reaches post-sale *contractual* restrictions as well as patent license terms. *Carbice*, 283 U.S. at 30-34 (patent misuse rendered invalid a contract at the time of the sale that precluded purchasers from using patented containers in combination with solid carbon dioxide made by others).

Given these basic differences, it is not surprising that this Court's decisions do not support Lexmark's contention that patent exhaustion is a species of patent misuse. Thus, the Court has repeatedly applied the exhaustion doctrine without any regard for whether the circumstances separately constitute misuse. See Pet. Br. 15-32. *Univis*, *Quanta*, and *Motion Picture Patents*, among others, each prove the point. See pages 10-13, *infra*.

D. This Court's precedents establish that an authorized sale exhausts all patent rights to the sold item.

Lexmark's central assertion—that "this Court's exhaustion precedent allow[s] patentees and their counterparties to allocate the separate and divisible rights Congress granted to inventors" in authorized sales (Br. 11-12)—has been expressly rejected in numerous cases. Instead of attempting to reconcile its position with this Court's explanations of its holdings, Lexmark reanalyzes the cases to produce new, revisionist explanations for each decision, completely at odds with this Court's prior pronouncements.

1. Lexmark asks (Br. 27) the Court to ignore *Univis*'s "broad statements" regarding patent exhaustion, arguing that *Univis* turned solely on the Court's rejection of the vertical price-fixing scheme. That misunderstands *Univis*. See Pet. Br. 16-20.

Univis presented two defenses to the claim that its licensing scheme violated the Sherman Act: first, that its scheme was "excluded by the patent monopoly from the operation of the Sherman Act;" and, second, that its "system" was either not prohibited by the Sherman Act or "exempted from it" by the Miller-Tydings Act. 316 U.S. 241, 243 (1942). See also U.S. Br., *Univis*, 1942 WL 53856, at *2-3.

The Court held that patent exhaustion barred Univis's first defense, concluding that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." 316 U.S. at 249. The "licensing system" was not, therefore, "within the protection of the patent law." *Id.* at 252.

The Court then considered Univis's second argument that it could nonetheless impose the restrictions as a matter of *contract*. *Id.* at 252-254. As the government explained in that case, Univis contended "that even if their patent licensing system is invalid, they cannot be charged with violating the Sherman Act because the identical restraints of trade are contained in the resale price-maintenance contracts." 1942 WL 53856, at *67. The Court found that the contracts were "unreasonable restraints within the meaning of the Sherman Act." 316 U.S. at 252.

Lexmark fixes on the Court's observation that it might "assume that [the non-price] restrictions might otherwise be valid." *Id.* at 254. But the Court's statement referred to the possible validity of those contract restrictions under the antitrust law—it cited an antitrust precedent just after the statement quoted by Lexmark. The statement says absolutely nothing about the scope of exhaustion.

2. *Quanta* independently confirms that the exhaustion principle bars Lexmark's patent claims.

Lexmark's main contention is that *Quanta* "involved no restrictive condition." Resp. Br. 28; *id.* at 19. But this Court, the court of appeals, and the parties all agreed that LG Electronics required Intel to condition its sales on the requirement that purchasers agreed to not combine the products with non-Intel parts. 553 U.S. at 623-624. See also Pet. Br. 20-23.

This Court's holding that exhaustion applied (see 553 U.S. at 638) necessarily repudiated the Federal Circuit's "conditional sale" doctrine—a conclusion shared by lower courts and commentators alike. Pet. Br. 23-24; Pet. App. 153a-154a.

Lexmark attempts (Br. 19, 28) to confuse the matter by asserting that LG Electronics imposed no limit on *Intel*'s ability to sell. This is bald misdirection. The issue was whether LG Electronics had *authorized* its licensee Intel to make the sales, an issue separate from whether there was a post-sale restriction. The Court concluded that Intel had authority to sell, which is why exhaustion applied. 553 U.S. at 636-637.

3. Lexmark says virtually nothing about the overruling of *A.B. Dick*.

A.B. Dick's holding—indistinguishable from Lexmark's argument in the present case—was that the "right to sever ownership and use is deducible from the nature of a patent monopoly"; "if that reserved control of use of the machine be violated, the patent is thereby invaded." 224 U.S. 1, 24-25 (1912). Cf. Resp. Br. 11-12 ("separate and divisible rights"); 17 ("if the patentee transfers one of three sticks to a customer").

"The defect in this thinking," this Court explained in *Motion Picture Patents*, springs "from failure to distinguish between the rights which are given to the inventor by the patent law * * * and rights which he may create for himself by private contract." 243 U.S. at 514. *Motion Picture Patents* therefore "put an end to the notion that patent owner's right to pass divided title was unrestricted." 6 *Moy's Walker on Patents* § 19:20 (4th ed. 2016).

Lexmark tries to cabin *Motion Picture Patents* and its progeny as grounded in findings of patent misuse. Resp. Br. 19-22, 29-30. But *Motion Picture Patents* rested expressly on patent exhaustion. 243 U.S. at 516. See also IP Profs. Br. 13-14. And that is how this Court has since understood it: *Motion Picture Patents* "simply narrowed the scope of possible patent infringement claims." *Illinois Tool Works*, 547 U.S. at 38.

The Court has consistently confirmed that the underpinning of patent exhaustion is not patent misuse, but instead the straightforward proposition that selling "a patented machine" "place[s]" it "beyond the confines of the patent law." *Bos. Store of Chi.* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918). The Court identified that same rule, without reference to misuse, in *United States Shoe Machine Co.*,

General Electric, *Ethyl Gasoline*, and *Line Materials*. Pet. Br. 31-32.

4. The Court's earliest patent cases are also inconsistent with Lexmark's argument.

In *Wilson* v. *Rousseau*, 45 U.S. (4 How.) 646 (1846), the Court recognized that Congress had addressed the particular question at issue, making inquiry into exhaustion unnecessary. Cf. Resp. Br. 15-16. The Court in *Bloomer* v. *McQuewan*, however, reached the same result on similar facts as a matter of patent exhaustion. 55 U.S. 539, 549 (1852).

Lexmark seizes on a series of references to "conditions" and "restrictions." Resp. Br. 18-19, 31-32. But *Mitchell*'s reference to "conditions" means a conditional sale, by which title passes on the occurrence of a condition precedent. Pet. Br. 32-35. It does not mean a post-sale condition of the sort at issue here.

In addressing *Keeler*, Lexmark disregards this Court's clear statement of the governing rule: "the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent," and renders it "entirely free from any further claim of the patentee." 157 U.S. at 666.

Instead, Lexmark attempts to contort (Br. 29-30) *Keeler*'s statement regarding contracts, asserting that contracts may support *patent* claims. 157 U.S. at 666. That is an implausible reading, confirmed by the Court's later holdings: such "special contract[s]" raise "question[s] *outside* the patent law." *Motion Picture Patents*, 243 U.S. at 509 (emphasis added). See also *Quanta*, 553 U.S. at 637 n.7.

E. Patent-based, post-sale restrictions would significantly injure competition.

Allowing patentees to opt out of patent exhaustion would eviscerate resale and repair markets, harming competition and—ultimately—consumers.

The effects on resale and repair markets would be stark—including significant, if not complete elimination of the $17 billion secondary market for smartphones (Pub. Knowledge Br. 24), the $341 billion auto repair market, which supports 150,000 independent businesses (Auto Care Ass'n Br. 28), and the medical device reprocessing industry, which saves hospitals more than $500 million each year (Med. Device Reprocessors Br. 9).

Lexmark asserts (Br. 34-35) that these harms have not yet materialized. But, because courts and commentators have viewed *Mallinckrodt* skeptically, no major market participants today attempt to enforce patent-based, post-sale restrictions. Pet. Br. 23 & n.5. See also Intel Br. 28-29. In fact, large segments of industry have relied on the view that such restrictions are *impermissible*. See Med. Device Reprocessors Br. 13-16. It is thus no surprise that the harms have "proved limited so far"; undoubtedly patentees will "decide differently if the law is clarified in their favor." *Kirtsaeng*, 133 S. Ct. at 1366.[5]

As to Lexmark's claim that "tailored exchanges" enhance consumer choice (Br. 23, 35), patentees may use leases and contracts to impose post-sale restrictions. But expanding the patent monopoly itself

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[5] The consumer safety issues raised by Lexmark's *amici* are the province of consumer protection laws and agencies—not the Patent Act. Med. Device Reprocessors Br. 11-13.

beyond the point of an authorized sale would enable patentees to control not just the initial market for their goods, but all secondary resale and repair markets as well. The inevitable effect would be reduced competition and higher prices.

II. There Is No Geographic Limitation On The Exhaustion Principle.

The Patent Act neither codifies nor limits the exhaustion doctrine. The scope of exhaustion is therefore governed by the common-law rule—and *Kirtsaeng* authoritatively establishes the contours of that rule.

A. The Patent Act does not exclude foreign sales from exhaustion.

Lexmark argues (Br. 38) that the Patent Act "[p]recludes" international exhaustion because the rights conferred in Section 271(a) "contain no exceptions for articles first sold abroad." But that reprises Lexmark's argument, advanced with respect to the first question, that exhaustion is precluded by the absence of any express recognition in the Patent Act. It should be rejected for the same reasons. See pages 2-5, *supra*. Because exhaustion "limits" the patentee's statutory rights, the absence of any express statutory limitation is irrelevant. *Bowman*, 133 S. Ct. at 1766.

Lexmark further observes (Br. 40, 48-49) that Sections 154(a) and 271(a) give patentees the exclusive right to import patented goods. But, again, that statutory text does not address the *limit* that exhaustion places on the import right, any more than the parallel portions of those sections address the limit on the right to sell that results from a domestic authorized sale. The import right enables a U.S. pa-

tentee to sue importers to exclude from the U.S. foreign-made goods sold *without* the U.S. patentee's authorization (otherwise, the patentee would only be able to sue end-users).[6]

Finally, contrary to Lexmark's contention (Br. 41), international exhaustion does not apply "U.S. law to foreign transactions." Rather, it holds that a U.S. patentee's foreign conduct affects subsequent claims of U.S.-based infringement. "A number of issues in patent law turn on events that occur in foreign countries." Margreth Barrett, *The United States' Doctrine of Exhaustion*, 27 N. Ky. L. Rev. 911, 946 n.118 (2000). See also IP Profs Br. 28-29.

B. *Kirtsaeng* and *Quanta* require international exhaustion.

1. *Kirtsaeng*'s square holding—that the common-law exhaustion rule "makes no geographical distinctions"—resolves the issue here. 133 S. Ct. at 1363. See Costco Br. 33-36; Intel Br. 17-18.

Although, as Lexmark contends (Br. 47), *Kirtsaeng* did interpret a specific statutory provision, *Kirtsaeng* identified the background common-law rule as part of its analysis—the question it addressed was whether the statutory provision limited the application of the common-law rule. Pet. Br. 45-48. Here, there is no statutory provision that can have such a limiting effect.

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[6] The Copyright Act also provides importation rights (see 17 U.S.C. § 602); the Court nonetheless held in *Kirtsaeng* that non-U.S. sales exhausted copyrights.

Lexmark seizes on the term "authority" in Section 109 of the Copyright Act (Br. 47), but that is a consequence of Congress's decision to codify copyright exhaustion. Patent exhaustion likewise determines a purchaser's rights absent authority from the patentee. See pages 4-5, *supra*.

Lexmark points to the Berne Convention regarding copyright (Br. 48)—but that treaty had no bearing on the Court's articulation of the common-law rule. In any event, the Patent Cooperation Treaty created an international patent application to harmonize patents.

We do not argue that patent and copyright doctrines are "interchangeable." Resp. Br. 48. But the common-law rule is the same, and—in the absence of a decision by Congress that the rule should not apply—it should lead to the same result. See Pet. Br. 47-48. Certainly this Court has repeatedly rejected the Federal Circuit's patent-law holdings that disregard analogous non-patent law. See, *e.g.*, *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Lexmark also argues (Br. 49) that certain "copyright-related consequences" are absent here. But Lexmark has no response to the basic point that many—if not most—products are subject to both copyright *and* patent. Pet. Br. 48. Disparate rules for patent and copyright exhaustion would yield destructive complexity and gamesmanship in international trade. See Costco Br. 15.

It also protests (Br. 39) that a foreign sale does not confer the "reward guaranteed by U.S. patent law." When patentees sell goods, however, they set the price—which can reflect all intellectual property

rights they contain. The U.S. patent rights will always factor into that calculus.

Moreover, these policy arguments are appropriately addressed to Congress—which has the power to craft a tailored patent-specific exhaustion rule to govern some or all non-U.S. sales if it chooses to do so.

2. *Quanta* further confirms this result.

Lexmark disregards (Br. 46) the central premise on which *Quanta* relied: exhaustion turns on "whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Quanta*, 553 U.S. at 632 n.6. (quoting *Univis*, 316 U.S. at 249). The relevant inquiry for exhaustion, this Court held, is not whether there is infringement (which is territorial), but rather whether the article practices the patent (which is not territorial).

LG Electronics argued that articles "sold overseas" would not trigger exhaustion. *Quanta*, 553 U.S. at 632 n.6. The Court disagreed, finding that the geographic location of the sale was not relevant to exhaustion.

3. Lexmark is simply wrong in asserting (Br. 44-45) that *Boesch* v. *Graff*, 133 U.S. 697 (1890), held broadly that foreign sales do not exhaust U.S. patent rights. See Pet. Br. 51-53; Intel Br. 8-10; IP Professors Br. 25-26.

The foreign seller in *Boesch* was not authorized to sell by the U.S. patentee, but instead was able to sell without authorization because of Germany's prior use law. 133 U.S. at 703. Lexmark dismisses this point as "irrelevant" (Br. 44), but the fundamental

prerequisite for exhaustion is a first sale *authorized* by the U.S. patentee. *Bowman*, 133 S. Ct. at 1766. That prerequisite was wholly absent in *Boesch*.

International exhaustion was recognized in *Holiday* v. *Mattheson*, 24 F. 185, 185-186 (C.C.S.D.N.Y. 1885). The Second Circuit subsequently relied on *Holiday* to explain that a foreign sale "frees the article from the monopoly of both his foreign and his domestic patents." *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 78 (2d Cir. 1920). Lexmark points to lower court holdings (Br. 49-52), but not one establishes that foreign sales can *never* exhaust U.S. patent rights.

C. The United States' trade agreements do not support a geographic restriction.

The trade agreements cited by Lexmark and the United States do not support a geographic limit on exhaustion.

To begin with, as Lexmark acknowledges (Br. 42), Article 6 of TRIPS provides, expressly, that the agreement does not address exhaustion. Subsequently, Article 5(d) of the Doha Declaration specifies that each nation is "free to establish its own regime for such exhaustion." International law thus does not address this issue.

Lexmark and the government rely on three bilateral trade agreements. Resp. Br. 41-43; U.S. Br. 27-29. Neither Lexmark nor the government dispute that some of these agreements adopted the same exhaustion rule for copyright—and that was no obstacle to international exhaustion in *Kirtsaeng*. Pet. Br. 54. That is because the implementing legislation for each agreement provided that it did not amend or modify U.S. law except as specifically provided in the

legislation—and nothing in the legislation addressed exhaustion. Pet. Br. 54-55.

Even if these reflected the view of the U.S. Trade Representative (Resp. Br. 43), Congress subsequently repudiated them by expressly *prohibiting* similar future provisions. Pet. Br. 55.

D. A geographical limit would harm U.S. industry, consumers, and workers.

Expressing concern for "consumers in underdeveloped nations," Lexmark advocates for the ability to price discriminate against U.S. consumers. Resp. Br. 52-55. But policy concerns provide no basis for ignoring the controlling legal principles.

If policy were relevant, moreover, it weighs in favor of international exhaustion. Domestic-only exhaustion would not benefit foreign consumers—and it would have devastating consequences for American industry, consumers, and workers alike.

Global marketplace. Lexmark asserts that our approach would create a "worldwide market" for patented goods. Resp. Br. 52-53. Not so. Manufacturers may segment markets based on regional product variants, using different languages, packaging, or technical geographic restraints. See Benjamin Pi-wei Liu, *Towards a Patent Exhaustion Regime for Sustainable Development*, 32 Berkeley J. Int'l L. 330, 365 (2014). And industry-specific statutes prohibit some types of parallel imports. See. *e.g.*, 21 U.S.C. §§ 381(d), 384 (restricting pharmaceutical imports); Public Citizen Br. 2-13 (describing separate rules in pharmaceutical context). The patent laws do not give patentees *greater* ability to discriminate by market.

American industry. Lexmark's rule would severely harm U.S. businesses dependent on global supply chains. Intel is illustrative: its supply chain "comprises more than 16,000 suppliers in over 100 countries"—the complexity and cost of negotiating licenses throughout is prohibitive. Intel Br. 7. See also Costco Br. 7-12; SanDisk Br. 14; Ass'n of Serv. & Computer Dealers Int'l Br. 6; HTC Br. 6-8.

Lexmark responds that, with international exhaustion, supply chains may still have to consider whether licensees' sales were authorized. But in the real world, that risk is far more limited than the uncertainty created by Lexmark's vastly broader rule—because patentees typically publish lists of authorized sellers. Intel Br. 14. As Intel puts it, "finding out whether a distributor was authorized to sell the product is vastly different from negotiating an express license with every single upstream patent holder." *Ibid.*

Lexmark contends (Br. 53-54) that "[n]o retailer or supplier that sues or misleads its customers will long remain in business." *Kirtsaeng* rejected just such reasoning: "a copyright law that can work in practice only if unenforced is not a sound copyright law." 133 S. Ct. at 1366. This is especially so because patent assertion entities already are bringing opportunistic claims in light of *Jazz Photo*. See Intel Br. 14-16; HTC Br. 8-10. Those entities are not constrained by the need to maintain customer relations. See *Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015).

No reliance interest counsels otherwise. Cf. Resp. Br. 55. Because the Court has never established a domestic-only exhaustion rule, *Kimble* is inapposite. See HTC Br. 4-8. Lexmark certainly cannot assert a

justifiable reliance interest in *Federal Circuit* precedent—otherwise, this Court would be disabled from correcting erroneous Federal Circuit rulings. The Court's decision in *Alice Corp. Pty.* v. *CLS Bank Int'l*, 134 S. Ct. 2347 (2014), rendered invalid tens of thousands of patents—but that was no reason to retain incorrect lower court precedent.

American consumers. Lexmark appears to recognize (Br. 52) that its territorial limitation enables discrimination against U.S. consumers, resulting in higher prices. Nothing in the Patent Act denies American consumers access to genuine goods that U.S. patentees choose to first sell abroad. See Costco Br. 13-14; Prof. Abbott Br. 19-20.

American workers. Finally, Lexmark has no basis for dismissing the implications of its rule for American workers as "fantastical." Resp. Br. 54. Title to goods often passes at either the factory or the port, when buyers take possession. Alain Frecon, *Practical Considerations in Drafting F.O.B. Terms in International Sales*, 3 Int'l Tax & Bus. Law 346, 360 (1986). A decision from this Court adopting domestic exhaustion would thus incentivize manufacturers to move their facilities outside the United States to avoid exhaustion. See Costco Br. 9 n.2.

E. The government's intermediate rule is incorrect.

The government is wrong in asserting that a patentee can preserve its ability to invoke patent remedies, notwithstanding an authorized sale outside the U.S. simply by expressly reserving its U.S. patent rights.

First, the inconsistency between the government's position on the two questions presented is ap-

parent. The government argues that under "longstanding" precedent "restrictions on post-sale use or resale of that article are not enforceable." U.S. Br. 8-12. But, as to international exhaustion, it insists that a U.S. patentee's "*express* reservation of U.S. patent rights at the time of a foreign sale" should "be given effect." *Id.* at 22. The government does not explain why a reservation of rights should be ineffective in an authorized domestic sale but effective when the sale occurs abroad.

Second, the government's argument would not alleviate the adverse policy consequences of Lexmark's position. Rather, rights holders will have every incentive to withhold U.S. rights as a term of sale. See IP Professors Br. 31-32; Med. Device Reprocessors Br. 36. That is especially problematic for supply chains, which rely on agreements made upstream in the distribution network. Intel Br. 19-21.

Third, the government's position has no basis in this Court's precedents. The government reads *Boesch* to hold that, "because a foreign sale of a patented article occurs under foreign law and has no inherent link to the U.S. patent * * *, a lawful foreign sale of a particular article will not *always* exhaust U.S. patent rights in that article." U.S. Br. 23. But that interpretation of *Boesch* rests on misdirection: exhaustion turns on whether an article's sale was *authorized*, not on whether it was "lawful" or not under local law. That is why, as the government elsewhere concedes, *Boesch* does not resolve the international exhaustion question here. *Id.* at 24.

Given the scattered lower court cases with no clear rationale (Pet. Br. 50-51), and the absence of any decision by this Court addressing the interna-

tional exhaustion issue, there is no clear standard that Congress can be said to have adopted in the 1952 Patent Act. Certainly lower court decisions by themselves cannot bind this Court.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES*
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

* Admitted only in Minnesota; supervised by principals of the firm.

Counsel for Petitioner

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